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International Accounting Standards Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **July 2007, London**

Project: **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - Disclosures (Agenda Paper 6A)**

Background

1. The IFRIC received a request to clarify whether the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*, in the absence of specific exclusion, would apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5. At the May IFRIC meeting, the staff presented a paper with two alternative views:

   - View A: IFRS 5 specifies all the disclosures required in respect of non-current assets classified as held for sale or discontinued operations, together with the requirement of IAS 33 *Earnings per Share* paragraph 68 to disclose the amount per share for discontinued operations.

   - View B: Disclosures required by IFRSs, whose scope does not exclude non-current assets classified as held for sale or discontinued operations, continue to apply to non-current assets classified as held for sale or discontinued operations.

2. Some IFRIC members supported view B as the only logical outcome. They were concerned, for example, that under view A, a liability arising from employee benefits (IAS 19) that is part of a disposal group would continue to be measured according to IAS 19 but the disclosures of IAS 19 would not be provided.

3. Some IFRIC members believed that this issue should be clarified by the Board. A Board member suggested that because IFRS 5 is converged with SFAS 144 the staff should discuss this issue with the FASB staff to be aware of practice in the US and to ensure that convergence would be maintained.

4. IFRIC members were asked to provide the staff with information to assess whether there is diversity in practice. The IFRIC deferred to a future meeting its decision whether this issue should be taken on to its agenda.

Staff analysis

5. In this paper, the staff discuss the following topics:

   (a) When issuing SFAS 144, what was the intention of the FASB in respect of disclosure requirements of other standards?

   (b) Is there significant diversity in practice between preparers applying view A or view B? Does this vary from IFRS to US GAAP preparers?

   (c) What are the arguments supporting view A and view B?

A) When issuing SFAS 144, what was the intention of the FASB in respect of disclosure requirements of other standards?

6. The FASB staff indicated to the IASB staff that, when issuing SFAS 144, the FASB did not specifically address the issue of whether disclosure requirements of other standards would apply to long-lived assets (or disposal groups) to be disposed of or to discontinued operations.

7. In respect of pensions, the staff note that :

   - SFAS 121, that was superseded by SFAS 144, did not affect any standards dealing with pensions;

- SFAS 144 only affected SFAS 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* and SFAS 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions*, replacing *segment of a business* by *component of an entity*;
- SFAS 132R *Employers' Disclosures about Pensions and Other Postretirement Benefits* does not require specific disclosures for long-lived assets (or disposal groups) to be disposed of or discontinued operations.

B) Is there significant diversity in practice between preparers applying view A or view B? Does this vary from IFRS to US GAAP preparers?

8. After the May IFRIC meeting, the staff asked IFRIC members the question above in order to assess diversity in practice.

9. Mainly, it appears that there is not a lot of practical experience on this topic to date and drawing reliable conclusions about existing diversity may be premature. One IFRIC member said that, from the responses received, it would appear that there is a reasonable amount of diversity in practice on this topic. On the contrary, another IFRIC member reported a study of 15 entities out of which only 8 presented discontinued operations, 3 of which included pensions and financial instruments but no detailed notes.

10. Another IFRIC member experienced the first application of IFRS 5 and SFAS 144 when preparing the financial reporting of a large international company. After a benchmark of best practices, this company published disclosures on its discontinued operations explaining clearly the planned sale and giving relevant information to the shareholders. Some disclosures were provided beyond IFRS 5 because the company considered them as useful or significant - e.g., providing details of assets and liabilities per entity to be disposed of or the amount of accrued liabilities that will be settled within the next reporting period. This company did not believe that all the disclosures about those assets and liabilities required by the other standards should be provided.

11. The staff acknowledge that it may be difficult to assess existing diversity but believe that it is possible that diversity will emerge in the future as view A and view B both find supporters.

C) What are the arguments supporting view A and view B?

View A

12. Supporters of view A believes that, for a disposal group for instance, applying the disclosures requirements of IAS 19 and IFRS 7 to the individual assets and liabilities of the disposal group would not give users relevant information because IFRS 5 or SFAS 144 require assets to be collapsed into one or two line items rather than being included within the regular line items to which the separate disclosure of the other standards would apply.

13. When an entity is committed to a plan to sell a group of assets and liabilities, what really matters is disclosing information about the planned sale and the disposal group as a whole. Paragraph 30 of IFRS 5 requires an entity to "present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)". BC 17 of IFRS 5 states that "the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of benefit to users of financial statements. Such information should assist users in assessing the timing, amount and uncertainty of future cash flows".

14. In addition, as IAS 1 *Presentation of Financial Statements* applies to all general purpose financial statements prepared and presented in accordance with IFRS, its general requirements on fair presentation and materiality would also apply to non-current assets classified as held for sale or discontinued operations in accordance with IFRS 5. On materiality for instance, IAS 1 states in paragraph 30 that "An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes" and in paragraph 11 that "Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor". This should normally prevent omission of material items in connection with non-current

assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5.

View B

15. Supporters of view B believe that disclosures required by IFRSs, that have not excluded non-current assets classified as held for sale and/or discontinued operations from their scope, continue to apply to non-current assets classified as held for sale and/or discontinued operations.

16. At the May IFRIC meeting, some who supported view B were concerned, for example, that under view A, a liability arising from employee benefits (IAS 19) that is part of a disposal group would continue to be measured according to IAS 19 but the disclosures of IAS 19 would not be provided. They point out that these disclosures help to understand the measurement requirements of IAS 19 that are quite specific. On the contrary, disclosures about PP&E required by IAS 16 (for instance) would not be very useful because, according to IFRS 5, such asset would be measured at the lower of its carrying amount and fair value less costs to sell and presented separately on a single line.

Staff recommendation

17. The staff is aware that the focus of the consequential amendments resulting from IFRS 5 was to make sure that assets classified as held for sale were measured under IFRS 5. Therefore, the Board did not discuss disclosure issues, in particular for liabilities of a disposal group arising from employee benefits. For this reason, the staff believe that this issue could be resolved efficiently through the Annual Improvement Process. The staff recommend the IFRIC to draw the issue to the attention of the Board and not to take the item on to its own agenda.

18. The staff support view A and suggest the addition of a paragraph for disclosures in the scope of IFRS 5, such as:

    The disclosure requirements of Standards other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale and discontinued operations in accordance with IFRS 5, unless these Standards specifically require disclosures for such assets.

19. As IFRS 5 was issued as part of a short-term convergence project, the Board may consider whether and when it would be appropriate to consult the FASB on this issue.

Do you agree with the staff recommendation that the IFRIC should not take this item to its agenda? If yes, do you have any comment on the proposed wording for such decision set out in appendix of this paper? Do you agree that the IFRIC should draw this issue to the attention of the Board? Do you have any suggestion regarding the proposed amendment to IFRS 5 that is in line with view A (paragraph 18 of this paper)?

Appendix: proposed wording for a tentative agenda decision

[Appendix omitted from observer notes].